Nashua and Pennichuck Corporation

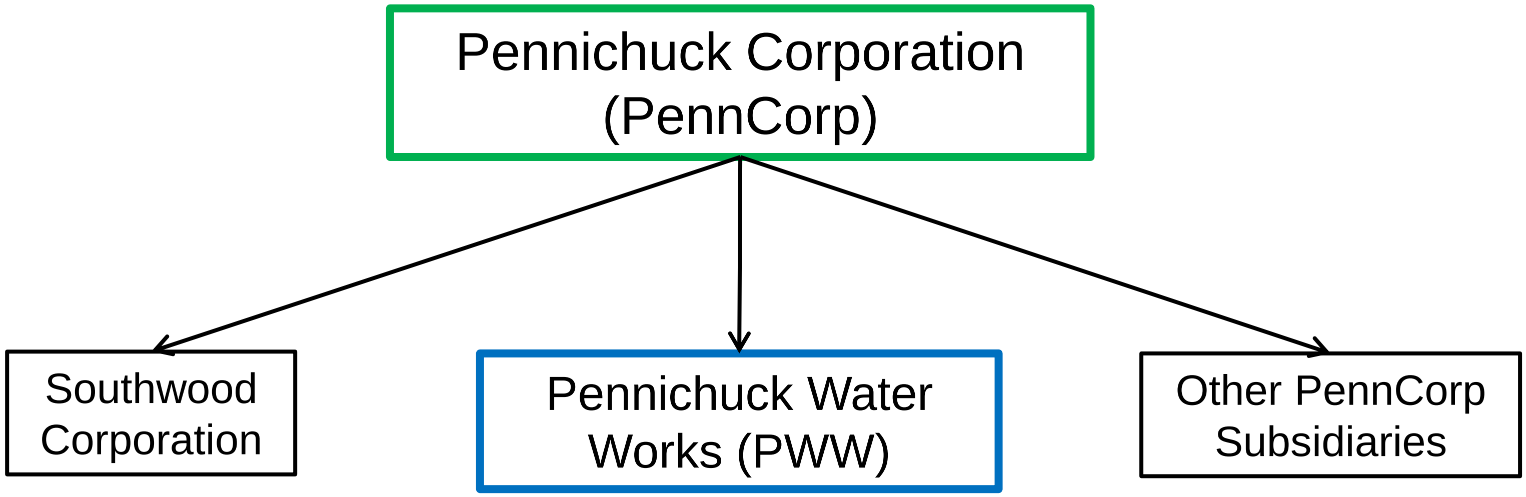
December 8, 2009

Executive Summary

- Last year, the City hired special advisors to help explore the acquisition of Pennichuck Corporation (PennCorp) at fair market value.
- Those advisors, relying solely on public information, have determined that the fair market value for all of PennCorp, including an appropriate buyout premium, is about $25 per share.
- Based on public statements made by PennCorp's management, they are focused on an inflated value of more than $30 per share. That price is not supported by the company's financial performance or by other measures of fair market value.
- Paying more than fair market value is the same as taking money from Nashua water customers and handing it to the out-of-state investors who control PennCorp.
- After full consideration of all alternatives, the City has directed its advisors to cease their work.
- The City will continue to vigorously pursue its eminent domain appeal. The City strongly believes the NHPUC majority erred when it issued a decision that failed to consider a market-based approach to valuing Pennichuck Water Works.

Roadmap

- Pennichuck Corporation (PennCorp) is a public company that owns five subsidiaries, including Pennichuck Water Works (PWW), Southwood Corporation, two smaller water utility companies and a water service company.
- Nashua has the right to take PWW under eminent domain (bottom blue box).
- The City has also explored the possibility of acquiring the entire company, PennCorp, at fair market value (upper green box).



Eminent Domain Background

- The Mayor and Board of Aldermen are fully committed to securing and protecting the water resources of the citizens of Nashua and its neighbors for generations to come at the lowest possible cost.
- In January 2003 the citizens of Nashua voted in favor of buying their water supply from PennCorp.
- In July 2008 the New Hampshire Public Utilities Commission ruled that the City had the right to take its water supply from PennCorp through eminent domain.
- The City welcomed that ruling but strongly disagreed with the price set by the PUC. The City has appealed that part of the decision to the New Hampshire Supreme Court.
- While that appeal is pending, the City brought in outside advisors to help explore the acquisition of PennCorp at fair market value.

A fair market value settlement is in the best interests of both PennCorp shareholders and the citizens of Nashua.

Fair Market Value Transaction

- Fair market value is the price a motivated corporate buyer would pay for PennCorp.
- The City directed its advisors to help determine fair market value. A summary of their analysis is presented on the following pages.
- The City is convinced that fair market value for PennCorp is about $25 per share.
- Not surprisingly, the largest shareholder in PennCorp, Gabelli & Company, has publicly argued for a higher price of $33 per share. The analysis Gabelli used to argue for that higher price is wrong.
- Unfortunately, PennCorp management presented Gabelli's incorrect analysis to their shareholders on May 6, 2009. That analysis does not provide a fair market value basis to settle the eminent domain dispute.
- After full consideration of all alternatives, the City has directed its advisors to cease their work.

Paying more than fair market value is the same as taking money from Nashua water customers and handing it to the out-of-state investors who control PennCorp.

How Did Nashua's Advisors Determine Fair Market Value?

- There are a number of well-established ways to determine fair market value.
- For a public company, like PennCorp, the best way is to look at values of other public companies that are most like them. That means other publicly traded water utilities.
- In their analysis, Nashua's advisors looked at how those other public utilities are valued in terms of their financial performance, their book value and their rate base. (Rate base is the asset value used to set billing rates for water utility customers.)
- They supplemented their public company analysis with other important information:
  - They had direct conversations with other companies in the industry.
  - They evaluated sales of other water utilities to corporate buyers.
  - They studied reports from independent investment analysts.

Nashua's Advisors Determined Fair Market Value Is About $25 Per Share

- First Nashua's advisors selected the public companies that are most like PennCorp. These are the same companies selected by PennCorp itself and by most industry analysts.
- Then they analyzed how those public companies are valued by the market. They looked at three measures of value: financial performance, book value, and rate base.
- Finally, they applied a "buyout premium," which is the extra amount a buyer pays to take over a public company.
- Typical buyout premiums are 20% to 40%. Nashua's advisors used the high end of that range for their analysis.
- The resulting fair market value of PennCorp is about $25 per share.
- These results were validated by discussions with other industry players and by research from independent stock analysts.

Fair Market Value Is The Right Value

- Gabelli and PennCorp have publicly argued that the City would be better off paying $33 per share to buy all of PennCorp than it would be buying just PWW through eminent domain.
- There are major problems with this argument:
  - Gabelli and PennCorp incorrectly assume there are only two possible outcomes to this dispute.
  - The City strongly believes the price set by the Public Utilities Commission for PWW is too high. That is why Nashua has appealed to the New Hampshire Supreme Court.
  - There is no fair market value justification for a $33 price per share.

The City is open to a fair market value resolution that serves the best interests of all parties.